# Healthcare Finance Group

*Presentation to Finance Committee*

WEST VIRGINIA UNIVERSITY HOSPITALS

**June 16, 2003**

UBS

KaufmanHall

UBS Financial Services Inc. is a subsidiary of UBS AG

EXHIBIT

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# Discussion Topics

# WVUH and Market Update

# Considerations for WVUH Finance Committee

- Approval of Bond Resolution and general not-to-exceed parameters
  - — Principal amount
  - — Final maturity
  - — Maximum interest rate
- Provide feedback regarding financing structure
  - — Fixed/variable rate debt mix
  - — Types of variable rate debt
  - — Use of interest rate swaps

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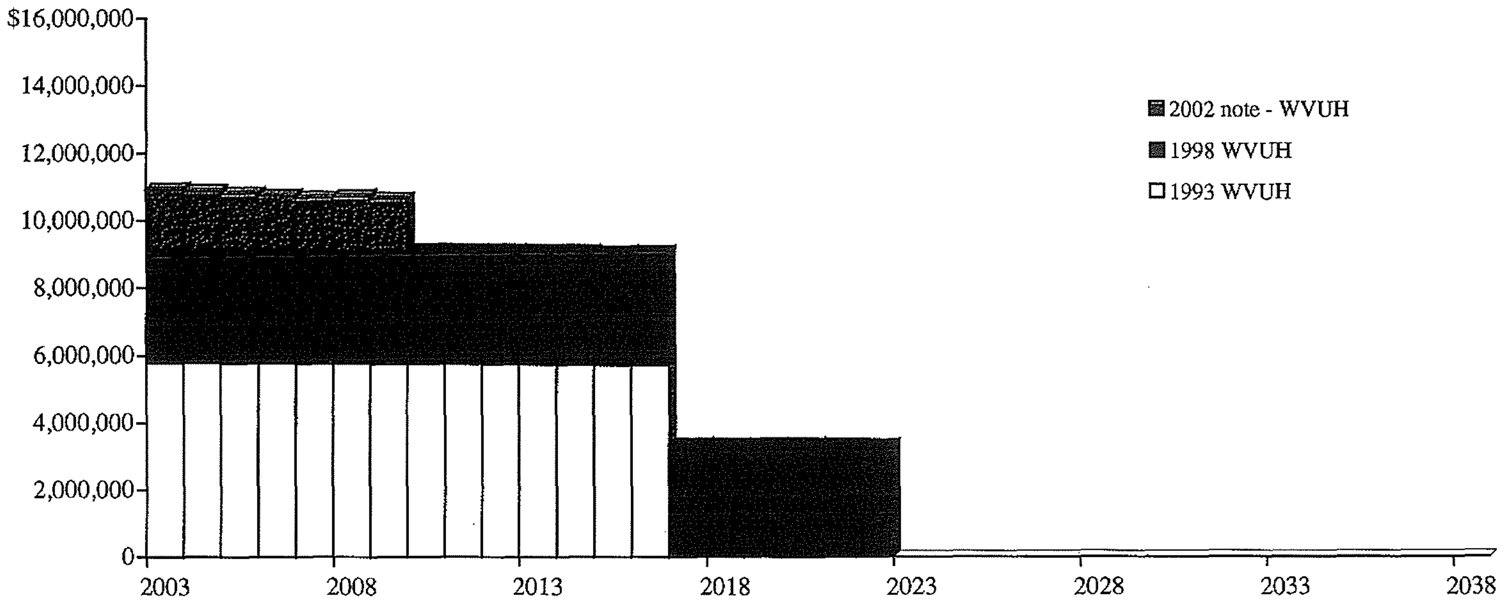
# WVUH currently maintains 92 percent of its debt in a fixed rate mode, and bonds amortize with a relatively short 8.5 year average life

| Bond Issue | Principal Outstanding | Interest Mode | Coupon Range | Average Coupon | Final Maturity | Average Life | Credit Enhancement | Advance Refundable | Callable |
|---|---|---|---|---|---|---|---|---|---|
| Series 1993 WVUH | $ 54,540,000 | Fixed | 4.90 – 5.40% | 5.11% | 2016 | 7.5 | MBIA | No | 06/01/03 @ 102% |
| Series 1998 WVUH | 41,615,000 | Fixed | 3.95 – 5.00% | 4.85 | 2022 | 11.2 | Ambac | Partially | 12/01/08 @ 100% |
| Series 2002 Note – WVUH | 8,600,000 | Variable | Variable | Variable | 2009 | 3.2 | LOC | – | – |
| **Total** | **$ 104,755,000** | | | | | **8.5** | | | |

## Existing Capital Structure




**Aggregate MADS = $10.9 million**

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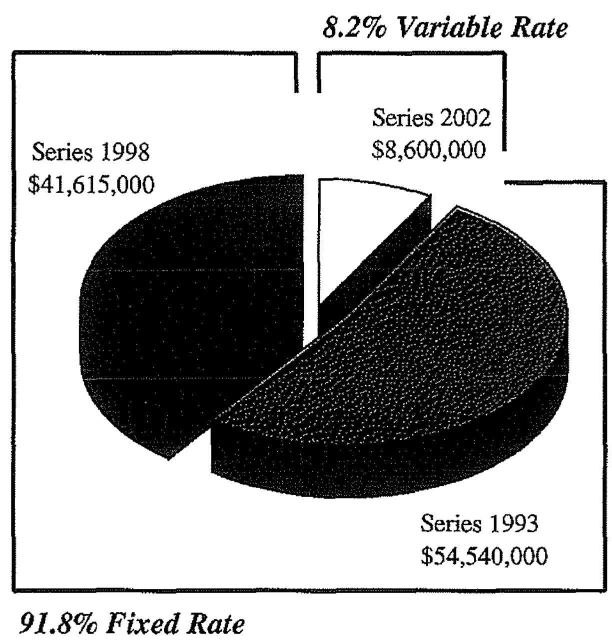
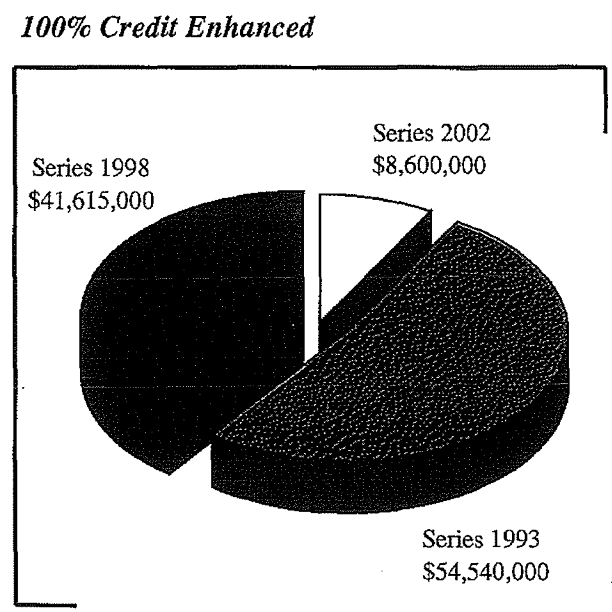
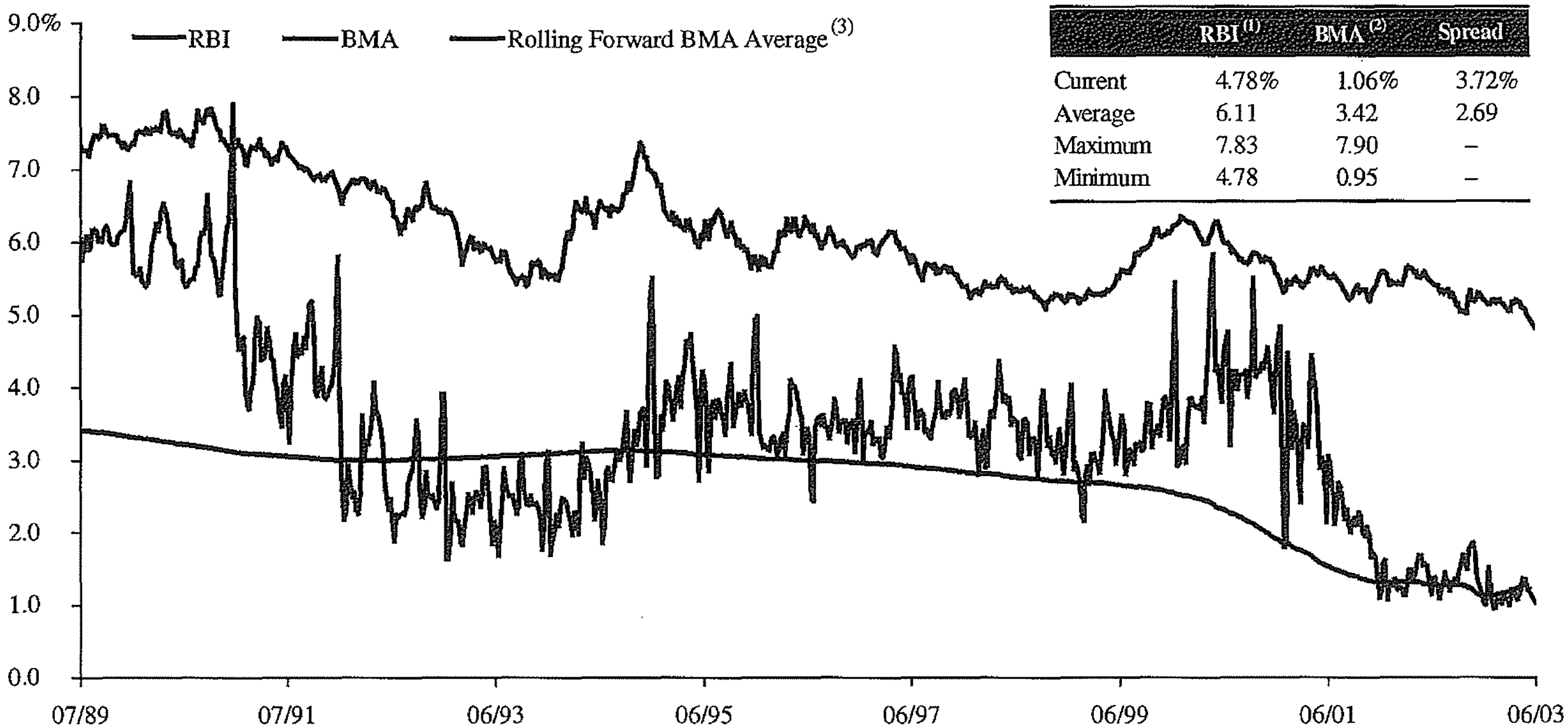
# All of WVUH's outstanding debt has some form of credit enhancement



# Long-term interest rates are at historical lows and present WVUH with opportunities to access capital at attractive rates (1)




| | RBI (1) | BMA (2) | Spread |
|---|---|---|---|
| Current | 4.78% | 1.06% | 3.72% |
| Average | 6.11 | 3.42 | 2.69 |
| Maximum | 7.83 | 7.90 | – |
| Minimum | 4.78 | 0.95 | – |

(1) The Revenue Bond Index (RBI) is based on 30-year bonds issued by 25 different revenue bond issuers for a variety of purposes including housing, transportation, hospitals and pollution control. The RBI is widely used as a benchmark for long-term revenue bonds.
(2) The Bond Market Association (BMA) Index is calculated by taking the weighted-average of the clearing rates for a pool of high-grade tax-exempt short-term issues with weekly resets. The BMA Index is a widely used index for high-grade weekly bonds.
(3) The Rolling Forward BMA average calculates the average interest cost of the BMA index from a point in time forward.

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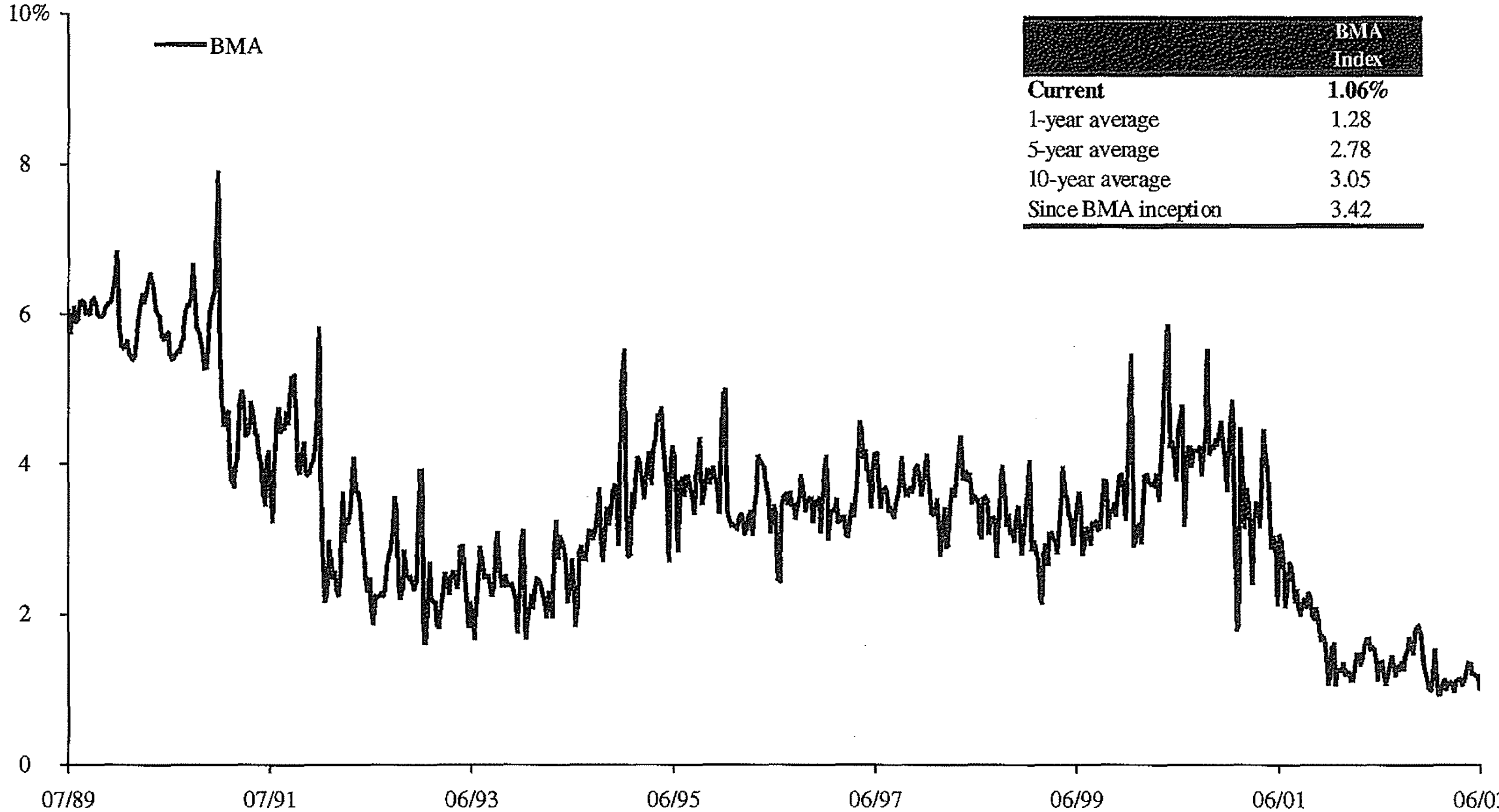
# Short-term interest rates are currently trading at just over one percent




| | BMA Index |
|---|---|
| **Current** | **1.06%** |
| 1-year average | 1.28 |
| 5-year average | 2.78 |
| 10-year average | 3.05 |
| Since BMA inception | 3.42 |

Note: Market information as of June 11, 2003.

# WVUH Project Financing Status Report

# WVUH has made important decisions in advance of its financing program

- The CON for WVUH has been approved
- The System has decided that WVUH will issue the Series 2003 Bonds as the sole initial member of the Obligated Group
  - — New Master Trust Indenture will permit UHC to join the Obligated Group, if desired by all parties
- Project size and scope continue to be evaluated by WVUH management
- Preliminary meetings with bond insurers and rating agencies were held in New York City during late April
- Formal meetings at WVUH
  - — MBIA (June 3)
  - — Moody's (June 19)
  - — Standard & Poor's (July 1)
  - — FSA (July 1)
  - — Ambac declined a formal meeting based upon its outstanding exposure to WVUH

# Currently, the financing team expects to price the Series 2003 Bonds during early August

| Week of | Activity |
|---|---|
| 07/21/03 | ■ Obtain ratings / bond issuance commitments<br>■ Finalize bond documents<br>■ Print and mail POS |
| 07/28/03 | ■ Investor road show |
| 08/04/03 | ■ Pricing |
| 08/11/03 | ■ Print and mail OS |
| 08/18/03 | ■ Pre-closing<br>■ Closing |

# Though its affiliation with UHC will impact the rating agencies' decisions, WVUH's profitability and liquidity, together with market position, utilization indicators and growth strategy, indicate an "A" rating

| | Actual 2002 | Pro Forma 2006 | Moody's A | Standard & Poor's A |
|---|---|---|---|---|
| **Profitability Ratios** | | | | |
| Operating margin (%) | 1.8 | 0.8 | 1.9 | 2.0 |
| Profit (excess) margin (%) | 0.2 | 2.8 | 5.2 | 4.0 |
| EBIDA margin (%) | 8.5 | 12.1 | 9.9 | 11.9 |
| **Liquidity Ratio** | | | | |
| Cash on hand (days) | 227 | 230 | 160 | 168 |
| **Leverage Ratios** | | | | |
| MADS coverage (x) | 2.3 | 4.0 | 3.8 | 3.3 |
| Debt to capitalization (%) | 29.3 | 41.9 | 38.2 | 33.1 |
| Cash-to-debt (%) | 166.4 | 107.6 | 101.1 | 108.8 |

# Financing Options

# Major objectives of WVUH's upcoming financing

- Fund necessary construction projects to facilitate future growth
- Borrow at the lowest risk-adjusted cost of capital
  - — Use of variable rate debt (20 – 30 percent)
  - — Use of derivatives
- Refinance debt to achieve savings in today's low interest rate environment
- Structure principal repayment to "smooth out" Hospital debt service over time
- Preserve future financing flexibility
- Protect against any future changes in credit
- Distribute some portion of Series 2003 Bonds as fixed rate for West Virginia retail participation

# Under current market conditions, in order to raise $70 million in net construction proceeds and restructure outstanding debt, WVUH would issue approximately $150 million in new debt

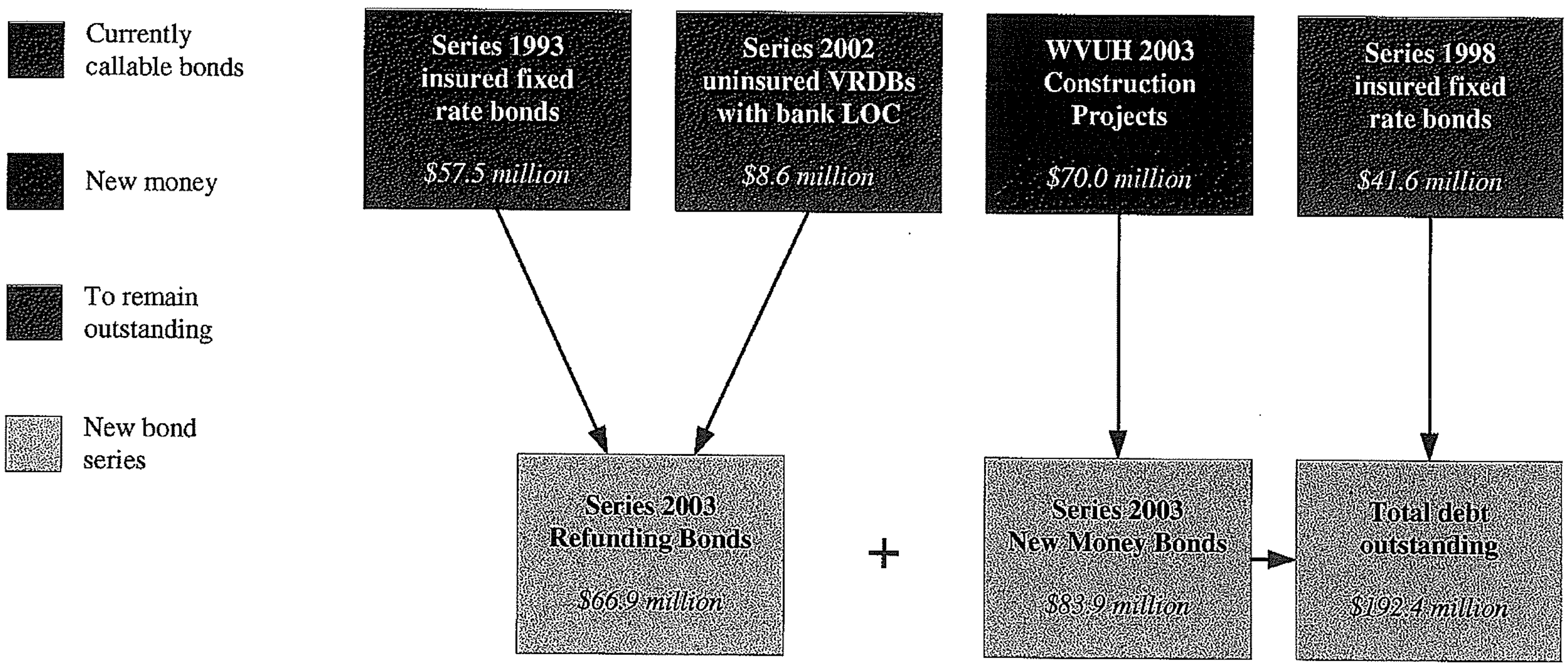
*($ in thousands)*

| Sources of Funds | Uninsured | "AAA" Insured |
|---|---|---|
| Bond principal | $ 150,780 | $ 147,875 |
| Premium | 2,486 | 9,405 |
| Net bond proceeds | 153,266 | 157,280 |
| Interest earnings | 1,570 | 1,546 |
| Total sources | $ 154,836 | $ 158,826 |

| Uses of Funds | | |
|---|---|---|
| Construction costs | $ 69,958 | $ 69,958 |
| WVUH Series 1993 restructuring | 55,774 | 55,774 |
| WVUH Series 2002 restructuring | 8,600 | 8,600 |
| Capitalized interest | 7,758 | 7,566 |
| Debt service reserve fund | 11,178 | 10,869 |
| Cost of issuance | 1,568 | 1,316 |
| Bond insurance | — | 4,743 |
| Total uses | $ 154,836 | $ 158,826 |

Note: Based on natural fixed rate bond issuance. Assumes capitalized interest through June 2005.

# Debt restructuring "road map" — WVUH base case




Note: Size of construction projects being evaluated.

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# If bond insurance is obtained with favorable terms and pricing, WVUH will enjoy access to *the widest possible* range of financing options

| | Uninsured | "AAA" Bond Insurance |
|---|---|---|
| ■ Natural fixed rate debt | ✓ | ✓ |
| ■ Variable rate demand bonds ("VRDBs") | ✓ | ✓ |
| ■ Auction rate certificate ("ARCs") | — | ✓ |
| ■ Synthetic fixed rate debt | ✓ | ✓ |

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# Natural fixed rate debt

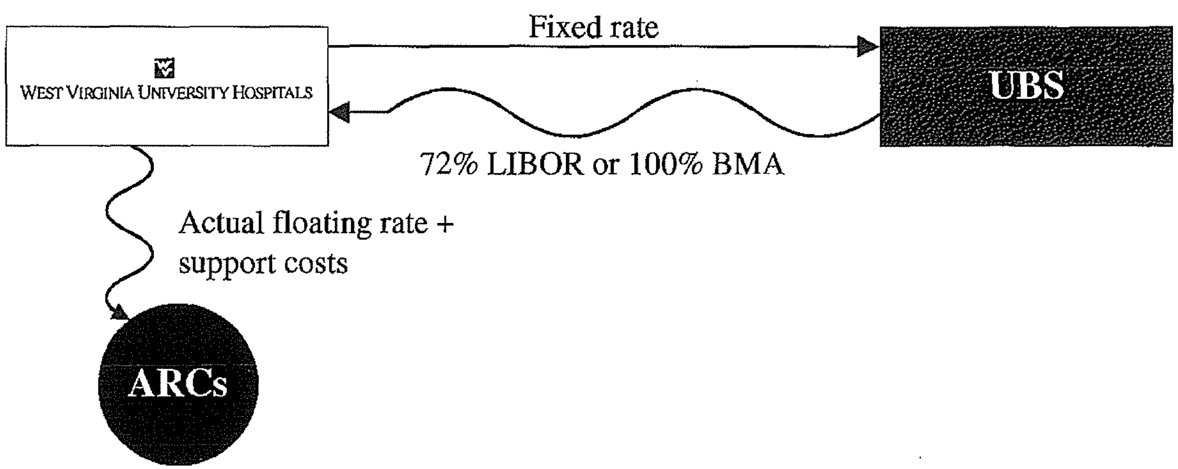
| Maturity | MMD (Aaa/AAA) | Insured (Aaa/AAA) | Uninsured (A2/A) |
|---|---|---|---|
| 2004 | 0.90% | 1.20% | 1.80% |
| 2005 | 1.10 | 1.36 | 2.01 |
| 2006 | 1.33 | 1.61 | 2.31 |
| 2007 | 1.70 | 2.00 | 2.70 |
| 2008 | 2.00 | 2.28 | 3.03 |
| 2009 | 2.26 | 3.59 | 3.34 |
| 2010 | 2.55 | 3.88 | 3.65 |
| 2011 | 2.76 | 3.03 | 3.80 |
| 2012 | 2.89 | 3.16 | 3.96 |
| 2013 | 3.02 | 3.29 | 4.09 |
| 2014 | 3.17 | 3.44 | |
| 2015 | 3.33 | 3.60 | |
| 2016 | 3.48 | 3.74 | 4.60 |
| 2017 | 3.60 | 3.88 | |
| 2018 | 3.70 | 3.96 | |
| 2023 | 4.13 | 4.35 | 4.90 |
| 2033 | 4.31 | 4.50 | 5.10 |
| **All-in cost** | | **4.70%** | **4.92%** |

Note: Rates as of June 6, 2003.

# Variable rate debt

| | 7-Day VRDBs | 35-Day ARCs |
|---|---|---|
| Spread to BMA | minus 0.05% | plus 0.10% |
| Letter-of-credit | 0.50 – 1.00% | – |
| Bond insurance (Annualized) | – | 0.20 |
| Issuance costs (Annualized) | 0.10 | 0.15 |
| Remarketing fees | 0.10 | – |
| Broker-dealer/Market agent fees | – | 0.25 |
| Trustee fees | 0.01 | 0.02 |
| **All-in cost** | **BMA + 0.66 – 1.16%** | **BMA + 0.72%** |
| Comments | ▪ Requires LOC or bond insurance/liquidity facility<br>▪ Exposes WVUH to LOC or liquidity renewal risk<br>▪ Funding is not committed<br>▪ Major buyers are money market funds | ▪ Requires bond insurance<br>▪ No LOC or liquidity renewal risk<br>▪ Funding is committed<br>▪ Major buyers are retail investors and corporations |

# Synthetic fixed rate debt




- WVUH issues variable rate debt
- WVUH concurrently enters into a swap contract wherein:
  - — WVUH agrees to pay UBS a specified fixed rate
  - — UBS agrees to pay WVUH a variable rate based on an index (either 100% of BMA or 72% of LIBOR)
  - — This exchange of interest payments is calculated against a notional amount equal to the principal value of bonds swapped
  - — Payments are netted against each other, with a single cash payment exchanged between parties each period
- Benefit in today's market is approximately 75-90 basis points

# Considerations for issuing synthetic fixed rate debt

- Basis risk
  - — Divergence between WVUH's own variable interest rate and the variable rate index paid by UBS
- Tax risk
- Accounting treatment
- Counterparty credit risk
- Potential collateral requirements

# In today's market, a current refunding of the WVUH Series 1993 Bonds will result in $1.9 to $5.1 million in present value savings

| | Traditional Fixed Rate | | Synthetic Fixed Rate | |
|---|---|---|---|---|
| | Uninsured (A2/A) | Insured (Aaa/AAA) | BMA | 72% of LIBOR |
| Par refunded | $ 54,540,000 | $ 54,540,000 | $ 54,540,000 | $ 54,540,000 |
| All-in interest cost | 4.19% | 3.72% | 3.63% | 3.29% |
| Average life (years) | 7.44 | 7.41 | 7.26 | 7.21 |
| **Present value savings** | **$ 1,886,317** | **$ 3,596,410** | **$ 3,894,494** | **$ 5,078,014** |
| **Present value savings/par refunded** | **3.46%** | **6.59%** | **7.14%** | **9.31%** |

Note: Rates as of June 6, 2003.

# Depending on the availability of bond insurance, both interest rate swaps and variable rate debt could lower WVUH's risk-adjusted cost of capital

- Scenario I: No bond insurance
  - Proposed Structure:
    - $150,780,000 – Natural uninsured fixed rate bonds
- Scenario II: Bond insurance for the refunding bonds only
  - Proposed Structure:
    - $92,455,000 – Natural uninsured fixed rate bonds
    - $61,995,000 – Insured auction rate certificates (ARCs) swapped to a fixed rate
- Scenario III: Bond insurance for the entire financing
  - Proposed Structure:
    - $65,960,000 – Natural insured fixed rate bonds
    - $41,875,000 – Insured auction rate certificates (ARCs) swapped to a fixed rate
    - $41,615,000 – Insured auction rate certificates (variable rate debt)

# Three recommended plans of finance

| Scenario | I<br>No Bond Insurance | II<br>Insurance for Refunding Bonds Only | III<br>All Insured Bonds |
|---|---|---|---|
| All-in interest cost | 4.92% | 4.72% | 3.92% |
| MADS | $11,177,721 | $10,859,188 | $9,860,377 |
| Fixed/variable mix | 100%/0% | 100%/0% | 78.2%/21.8% |
| Insured/uninsured mix | 21.6%/78.4% | 52.8%/47.2% | 100%/0% |
| Swap term | — | 2016 | 2033 |
| Considerations | ■ Least risk<br>■ Highest cost | | ■ Counterparty credit risk<br>■ Tax risk<br>■ Basis risk<br>■ Accounting treatment<br>■ Potential collateral requirements |

Note: Aggregate MADS (including Series 1998 Bonds ) — Scenario I – $14.5 million; Scenario II – $14.2 million; Scenario III – $13.3 million.

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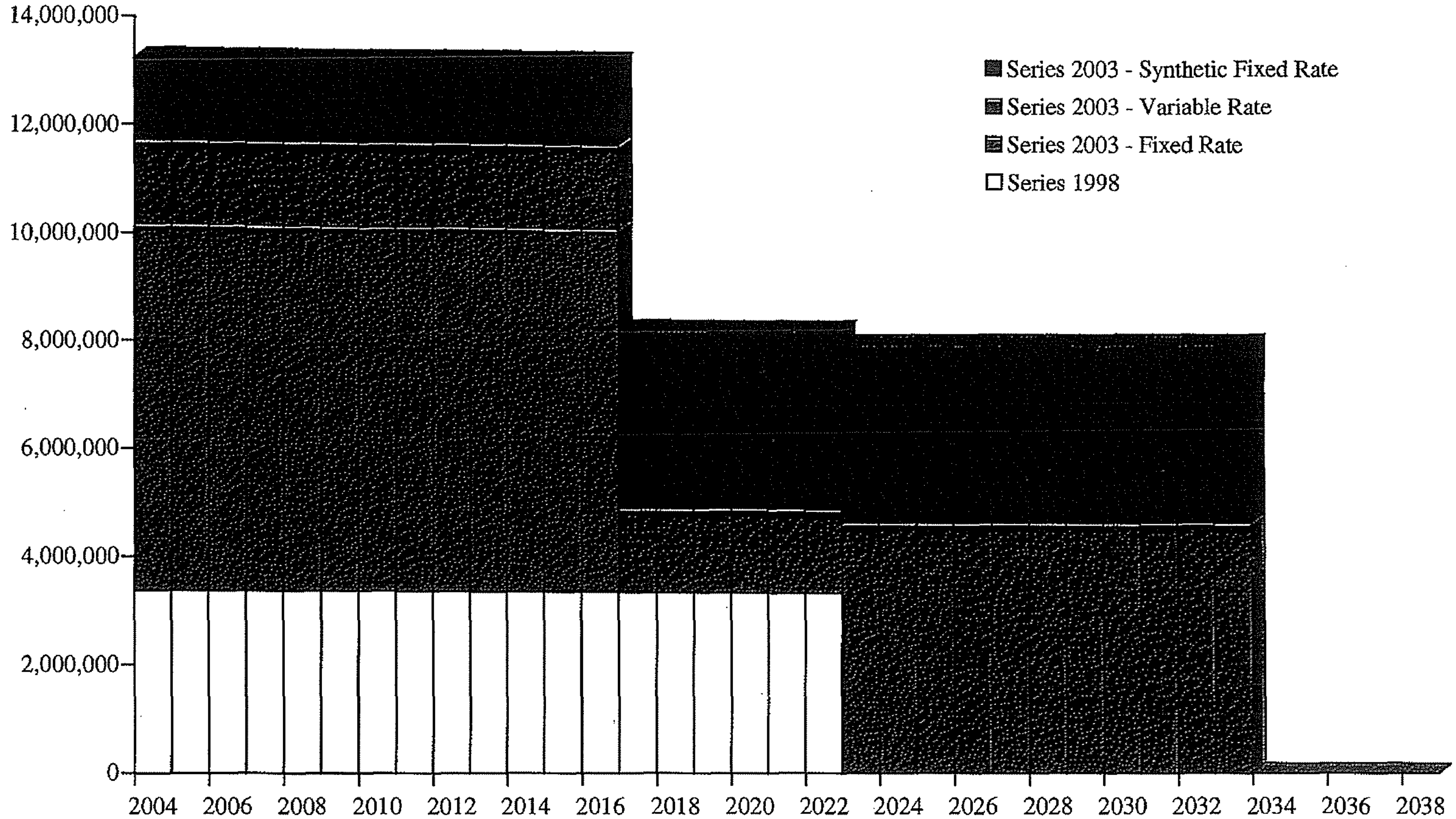
# WVUH's aggregate debt service post issuance of Series 2003 Bonds




Note: Scenario III for demonstrative purposes.

# Next Steps and Open Issues

# Next steps and open issues

- Approve Bond Resolution and general not-to-exceed parameters this Friday
  - — Principal amount
  - — Final maturity
  - — Maximum interest rate
- Provide feedback regarding financing structure
  - — Fixed/variable rate debt mix
  - — Types of variable rate debt
  - — Use of interest rate swaps
- Possible extension of Series 1993 Bonds
  - — Re-examine average useful life of prior projects
- Use of debt service reserve fund
- Finalize discussions with rating agencies and bond insurers
- Complete new Master Trust Indenture

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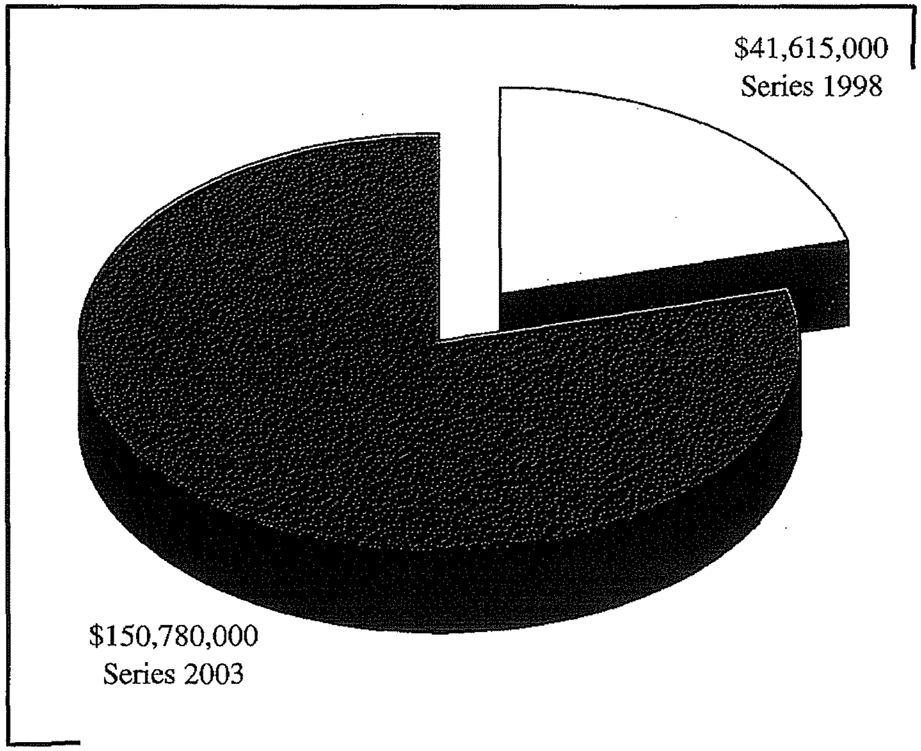
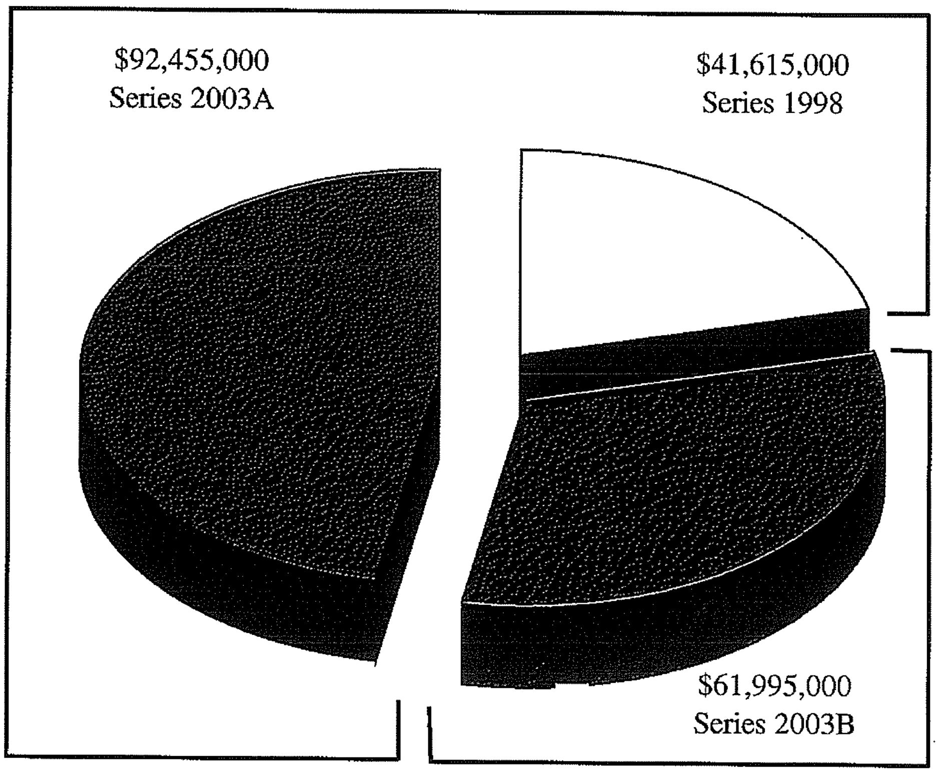
# Scenario I: No bond insurance

*100% Fixed Rate*



# Scenario II: Bond insurance for refunding portion only

*68.4% Fixed Rate*




*31.6% Synthetic Fixed Rate*

# Scenario III: Bond insurance for the entire financing